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Approved For Release 2007/03/06 : CIA-RDP79T00975A030500010061-5

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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday 7 February 1978 CG NIDC 78/031C

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NATIONAL SECURITY INFORMATION
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National Intelligence Daily Cable for Tuesday, 7 February 1978.

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The NID Cable is for the purpose of informing senior US officials.

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Costa Rica,

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CHAD: Situation Report

25X1 [] Chad broke diplomatic relations with Libya yesterday because of Libya's support for the Chadian insurgents who are besieging the government garrison at Faya Largeau. The break in relations removes any hope for early mediation between Libya and Chad--probably a necessary step before a cease-fire can be arranged with the rebels. Although supplies have been airdropped to the garrison, the situation remains critical for the government forces, who have been holding out for nearly a week.

25X1 [] France is continuing its airlift of military supplies in an attempt to support the two Chadian relief columns heading north to repel the attackers. In addition to small infantry-type weapons, the French are providing armored cars and the services of four French Transall aircraft and two DC-8 transports. The French continue to maintain that no French paratroopers will be involved in combat roles, but the US Embassy in Ndjamena reports the presence of French paratroopers in the city. French pilots, moreover, have been flying some of the Chadian aircraft.

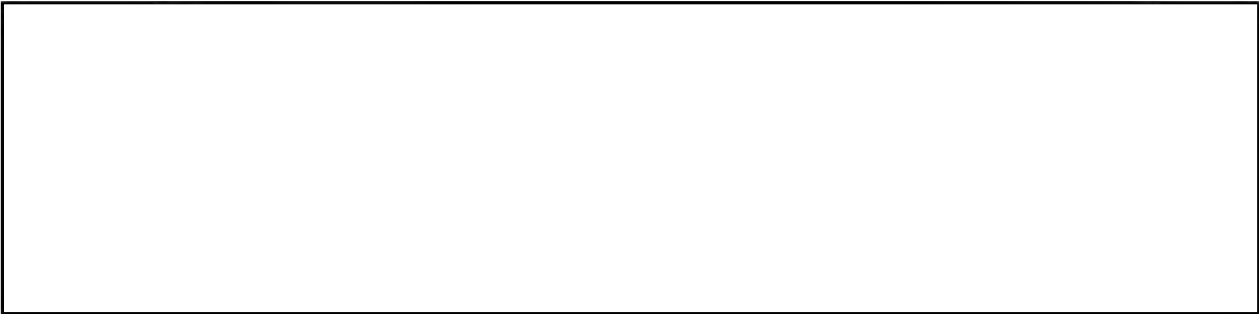
25X1 [] Although the Libyans have provided training and material to the rebels, neither the French Government nor the US Embassy in Tripoli believes that Libyan troops are operating with the rebels in the field. The Chadian Government asserts, however, that Libyans and other "foreigners" are assisting the insurgents.

25X1 [] Two other government outposts in the north--Fada and Ounianga Kebir--are also under attack by the rebels. The Chadian Government continues to seek military assistance from a wide variety of sources. As long as hostilities continue, the Chadians will urge the US to make good on what they see as a commitment to assist them. Thus far, Chad has been able to secure only modest aid and diplomatic support from moderate Arab and African countries. []

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JAPAN: Reduced Raw Material Demand

25X1 [] //Japanese demand for key raw material imports is likely to fall sharply this year; one result could be to aggravate already strained economic relations between Japan and its major trading partners.//



25X1 [REDACTED] //The steel industry's efforts to cut back imports reflects the near certainty of further declines in production this year. Sluggish demand at home coupled with mounting protectionist sentiment abroad are expected to reduce demand. Steel producers, moreover, have built up excess inventories of iron ore and coking coal since 1975.//

25X1 [REDACTED] //Imports of other raw materials such as copper and nickel could also fall well below normal levels because of slipping Japanese industrial production. Only lumber and wood product imports appear to be headed for a better than average year, a reflection of another strong performance in Japan's housing sector.//

25X1 [REDACTED] //Japanese importers have reneged on long-term raw material contracts in the past, and some importers have forced suppliers to cut prices by threatening to cancel orders. Hardest hit by such tactics have been Australia, the Philippines, and Malaysia. Imports from these countries affected by reduced Japanese demand include iron ore, coal, sugar, copper, rubber, and tin.//

25X1 [REDACTED] //Because most Japanese imports are raw materials, cutbacks could result in retaliation by Japan's leading trading partners. For example, Australia has a long history of clamping restrictions on Japanese products--including cars and machinery--when faced with domestic pressure over Japanese market penetration or shortfalls in Japanese purchases. Iron ore and coal represent 45 percent of Japanese imports from Australia.//

25X1 [REDACTED] //Japan's trade relations elsewhere also are on shaky ground. New Zealand is threatening to restrict Japan's fish catch in its waters if Tokyo does not boost imports of

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New Zealand agricultural products. Taipei is considering additional quotas on Japanese manufactured goods if Tokyo does not buy more products from Taiwan. [REDACTED]

URENCO: Nuclear Fuel for Brazil

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[REDACTED] //The Dutch Parliament approved the expansion of the uranium enrichment plant at Almelo in the Netherlands last week. The Parliament, however, also demanded a new safeguards agreement with Brazil before the British - Dutch - West German consortium URENCO fulfills its contract to supply fuel for Brazil's Angra II and III reactors beginning in 1981. Britain and West Germany will probably oppose making further demands on Brazil.//

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[REDACTED] //Throughout URENCO's negotiations with Brazil, the Dutch Government has sought to tighten the safeguards agreement on Brazil's use of URENCO-enriched uranium, and particularly on the storage of plutonium after the spent fuel is reprocessed. The Dutch realize that their leverage on this question is slight, however, because their URENCO partners are willing to supply fuel to Brazil regardless of the Dutch position.//

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[REDACTED] The Dutch Government, partly influenced by a US recommendation to supply fuel for Brazil's Angra I reactor as well as by Brazil's hard line, went along with its URENCO partners and Brazil in December, agreeing to safeguards weaker than the Dutch had hoped for. The government agreed that it would be acceptable for Brazil to store plutonium under International Atomic Energy Association rules--if such rules are established by 1985, when URENCO fuel in Brazil would be due for reprocessing. If no IAEA regime exists by then, the URENCO partners and Brazil would work out ad hoc safeguards.

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[REDACTED] The Parliament, however, rejected this agreement. The government's own parliamentary supporters, with backing from the opposition, demanded that Brazil's agreement on firmer plutonium storage safeguards be obtained by 1981, and that full-scope safeguards be accepted by any new URENCO customers. These conditions, the legislators argued, would respond to domestic concerns and preserve the Netherlands' strong antiproliferation stance.

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At the same time, by agreeing to enlarge the Almelo plant and supporting the continuation of the URENCO consortium, the Parliament hopes to ensure that the Dutch receive their share of the profits from URENCO business.

Britain and West Germany are unlikely to favor new efforts to obtain firmer safeguards from Brazil. Brazilian officials have reiterated their determination to resist any discriminatory safeguards, and the British and West Germans believe other suppliers of enriched uranium are eager to win Brazil and other countries as customers without such safeguards. They also stress that URENCO's credibility as a supplier is suffering because of Dutch obstinacy on the safeguards issue.

British and West German officials put strong pressure on the Dutch Government to go ahead with the expansion of Almelo. They could legally have claimed enormous damages from the Dutch if Almelo's enlargement had not been approved.

Confronted by renewed Dutch resistance on the safeguards issue, the other URENCO partners are likely to move to provide Brazil with enriched uranium on their own, even at the cost of destroying the consortium.

NORWAY: Government Under Fire

Norway's minority government is being criticized by the Norwegian press, and privately by some NATO partners, for not standing up to the Soviets in recent fishing negotiations and for limiting West Germany's participation in the NATO exercise to be conducted in Norway in 1980. The government says its position on these issues was necessary to ensure success in future negotiations with the Soviets. The public debate could jeopardize parliamentary ratification of Norway's fishing accord with the USSR, scheduled for this month.

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[] Accusations that Norway is bending to Soviet pressure began last fall when the terms of the Barents Sea fishing accord became known. The criticism increased sharply following an announcement last month that a 1975 plan to increase West German troop participation to 1,500 by 1980 would not be implemented. The announcement came only a few weeks after Soviet Premier Kosygin had issued a strong blast at Norway's participation in NATO. Although the government says the decision not to allow the increase was made last fall, the timing of the announcement makes it appear to be a direct result of Soviet pressure.

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[] //Foreign Minister Frydenlund contends that the decision to limit West German troop participation was made in response to Finnish intervention and, to a lesser extent, to domestic considerations--a reference to Norwegian memories of the German occupation. He maintains that the move has relieved Soviet pressure without yielding on principle, since the level of German participation planned for this year--480 troops--will not be reduced.//

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[] Norway meanwhile is improving its defense programs and providing support to NATO despite Soviet complaints. It is allowing the US to place navigational devices along the Norwegian coast, stocking equipment in Norway for allied forces, and participating in AWACS--the NATO Airborne Warning and Control System.

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[] Frydenlund and the Defense Ministry may cite these efforts in the event NATO allies step up their criticism of Norway's decision on West German troop participation. NATO expressions of concern thus far have been kept out of public channels.

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[] West Germany seems to be willing to play down the troop decision, but other NATO members fear that the appearance of yielding to the Soviets will encourage continued pressure. Some have suggested that Norway clarify the ceiling it imposed on West German troops by announcing that it applies to the 1980 exercise only.

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[] The Barents Sea fishing accord is important to the Norwegian fishing community. Although most Norwegians believe

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the Soviets got more than they gave, the agreement, which must be renegotiated in June, was essential to regulation of third-country fishing this season.

25X1 [] //Norway's fishermen are also trying to get a fisheries protective zone agreement with the Soviets in the Svalbard area. The Soviets are wary in these negotiations lest precedents be set that could impinge on the security of their military arrangements in the area. Arrangement for economic exploitation of the Svalbard area and final terms for a maritime boundary treaty must bridge complex differences, and Oslo is anxious to convey a spirit of cooperation.// []

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FRANCE: Trade and Current Accounts

25X1 [] *Go-slow economic policies enabled France to chop its current account deficit in half last year to \$2.9 billion. The trade account improved sharply but still registered a deficit of \$2.4 billion. If the present governing coalition remains in power after the March parliamentary election, some further reduction in the trade and current account deficits is likely in 1978. If the left comes to power after the election, it would almost surely move the accounts in the other direction by increasing public spending and workers' wages. This would spur imports, dampen exports, and accelerate inflation.*

25X1 [] French trade and current account balances have fluctuated sharply since the quadrupling of world oil prices in 1973-1974. A major factor has been shifts by the government between policies aimed at encouraging production and employment and those geared toward curbing inflation and payments deficits. The oil price hike boosted net oil imports from \$2.8 billion in 1973 to \$8.8 billion in 1974, moving the trade balance from a surplus of \$780 million to a deficit of \$3.9 billion. The current account deficit soared from \$690 million to a record \$5.9 billion.

25X1 [] The government applied the economic brakes in 1975, swinging the trade balance back into surplus and returning the current account to equilibrium. The cost was high; the economy stagnated and unemployment soared. In 1976, more expansionary policies helped boost real gross domestic product by

5 percent and stabilized unemployment. The trade and current account deficits soared, however, reaching \$4.3 billion and \$6 billion respectively.

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[] The government returned to restrictive monetary and fiscal policies in September 1976. Prime Minister Barre has committed himself to reducing the trade deficit by fostering the slow, steady growth of production. Barre believes that exchange rate movements correct imbalances in international trade and payments too slowly. In his opinion, a depreciation of the franc accompanying a persistent current account deficit would engender domestic inflation and further depreciation of the franc before trade was brought to equilibrium.

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[] Under the influence of Barre's stabilization measures, the current account deficit fell to \$2.9 billion in 1977. Large gains were achieved in both trade and services. Real growth slowed to 3 percent, and unemployment again increased.

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[] The trade deficit dropped to \$2.4 billion in 1977. In constant prices, exports increased by 6 percent and imports by 2 percent. The small rise in imports compared favorably with a 20-percent jump in the previous year. Net oil imports fell slightly in 1977, reflecting conservation efforts and slow economic growth.

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[] Increased earnings from engineering projects in the Middle East and Africa boosted the surplus on services to \$1.8 billion, up from \$500 million in 1976. The deficit on transfers increased slightly to \$2.3 billion, even though the outflow of worker remittances slowed.

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[] If the left fails at the polls in March, the French current account deficit should decline further in 1978, perhaps to \$1.7 billion. The big gains of last year will not be repeated, however.

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[] Domestic demand will remain sluggish, holding down imports. Real growth should be 3 to 4 percent, roughly the rate expected for other developed non-Communist countries as a group. Consumer price inflation, expected to be around 8.5 percent, also should be near the average for France's major competitors and trading partners.

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[] The French count on further recovery in agriculture and momentum in certain export lines--automobiles for example--to bring about a larger increase in exports than in imports. Protectionist measures, notably those affecting steel and textiles, will make the task easier. French export volume should increase by about 5 percent, roughly keeping pace with the exports of other industrialized countries. The favorable trend in the services account should continue.

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[] A victory by the left in March could lead to an increase in the current-account deficit within six to eight months. The Socialists and Communists have both promised higher wages and increased government spending, particularly social welfare payments. Measures of this sort would accelerate inflation, boost imports, and reduce the competitiveness of French exports. []

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CANADA: Quebec Language Law

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[] //Quebec's language law, enacted by the provincial assembly in August as a first step in Premier Rene Levesque's program of separation from Canada, is under attack from both legal and business quarters. Levesque's Parti Quebecois will probably score points with French-speaking Quebecers during the legal battle but may ultimately lose support because of the economic consequences.//

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[] //The Superior Court of Quebec ruled in late January that the law establishing French as the paramount language in the province is unconstitutional because it makes French the only official language for judicial and legislative acts. The decision was applauded by the English-speaking community and the federal government. The provincial government immediately said it would appeal to higher courts.//

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[] //The Parti Quebecois will benefit from the court actions, given the popularity of the language law among French-speaking Quebecers. If the provincial government wins its court battles, its language policy would be vindicated. If it loses, the separatists would have another issue to use in their condemnation of the British North America Act--the Canadian constitution. If the Supreme Court upholds the decision striking

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down the law, moreover, the Parti Quebecois will undoubtedly point to Manitoba's English-only law, unchallenged since 1890, as evidence of discrimination against the French.//

25X1 [] //Last month, Canada's largest insurance company, Sun Life, blamed the language law for its decision to move its corporate headquarters from Montreal to Toronto. The announcement raised an immediate storm in both Quebec and Ottawa. Levesque denounced the company's move as "essentially political" and aimed at "destablizing" the provincial government. He pointed out that under the present political system the province is helpless to prevent companies from fattening themselves at Quebec's expense and then departing.//

25X1 [] //Prime Minister Trudeau and federal Finance Minister Chretien, concerned at the economic consequences for Quebec should other companies follow suit and also fearing that these developments would generate additional sympathy for the separatists among French speakers, pressed Sun Life to reconsider. The company has agreed to a short delay before making its final decision.//

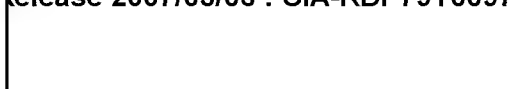
25X1 [] //The movement of corporations from Montreal westward to Toronto or Calgary is not new, but it has increased since the Parti Quebecois' victory in November 1976. Foreign and domestic private capital investment in Quebec is lagging, and the outlook for new industrial development is poor. Unemployment already is considerably higher than in the rest of Canada and is likely to rise. If a link is established in the minds of the voters between nationalist policies and rising joblessness, the popularity of Levesque and the Parti Quebecois could drop sharply. []

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USSR: Technology Transfer

25X1 [] *Western companies are becoming increasingly concerned that the Soviets and East Europeans will use imported technology and price-cutting tactics to gain marketing advantages for some products. This concern could lead to voluntary controls by some industries over the transfer of Western technology to Communist countries. Such controls could supplement existing governmental regulations to inhibit technology transfers through foreign subsidiaries and licensees in third countries.*

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[REDACTED] According to a survey last year, 55 percent of West German companies fear that competition could result from East European use of imported technology. Half the companies responding believed that the suppliers of technology would lose control over the quality and use of products from cooperative projects.

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[REDACTED] At a recent British-Soviet seminar, the Soviets indicated that they would use imported technology to compete with the West in some microelectronics products. The Soviets are already negotiating to supply integrated circuits to a French company and to an Italian one; they are offering the Italians the circuits at a reduced price for use in making minicomputers for export to the USSR.

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[REDACTED] The Soviets have had some success with cut-rate selling of automobiles and watch movements they produced with Western technology.

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[REDACTED] The Soviets and East Europeans are unlikely to compete successfully anytime soon in high-technology products, such as those from the aircraft and electronics industries, even at discount prices. Nevertheless, US companies report increasing evidence of Soviet intent to use imported technology and artificially low prices to sell such products to customers now supplied by Western companies. For example, the Soviets are again trying to get US aircraft companies to coproduce aircraft for markets that the Soviets assert they can gain by undercutting prices. [REDACTED]

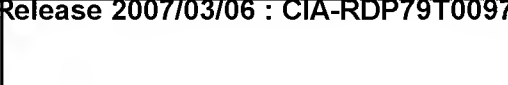
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Costa Rica

[] The Costa Rican presidential election has apparently been won by Rodrigo Carazo of the Unity coalition. With most of the votes counted, he appears to have outpolled his nearest rival, Luis Alberto Monge of the incumbent National Liberation Party, by 51 to 43 percent.

[] Carazo will continue the extensive socioeconomic programs of the present government and the country's traditionally close cooperation with the US.

[] In foreign policy, Carazo supports Panama's sovereignty over the Canal Zone and the Belizean people's right to self-determination--although he says Guatemala's rights must be considered. He favors reactivation of the Central American Common Market and the settlement of the Salvadorean-Honduran dispute. He will probably be less inclined than the present government to establish relations with Cuba. []

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